



March 3, 2006

Rich Ross  
President  
Disney Channel Worldwide

Dear Senator:

Disney Channel urges you to oppose any legislative or regulatory effort to create a la carte cable or satellite programming regulation. Disney Channel is the premier destination for childrens' and family viewing and has a unique perspective on the issue of "a la carte" programming. Disney Channel was launched as an a la carte service, but was unable to develop successfully until it migrated to being carried by cable and satellite on the expanded basic tier of programming. As described in detail below, Disney Channel's actual experience transforming from an a la carte channel to expanded basic confirms that the expanded basic bundle is the most pro-consumer model.

Disney Channel's Original Launch as an A La Carte Channel Was Unsuccessful. Disney Channel originally launched in 1983 as an a la carte service. During this time, Disney Channel's availability was limited to only those kids and families who could afford to pay the additional \$10 to \$16 monthly fee. Notwithstanding even the strength of the Disney brand, penetration hovered on average in the 9-10% range. Limited availability was not the only problem. Like all other a la carte services, Disney Channel had to contend with high subscriber turnover, also known as churn, which typically ran approximately 5% to 6.5% per month, or roughly 60% to 78% per year. This meant that, in order simply to maintain the prior year's distribution, Disney Channel had to replace 60% to 78% of the subscribers with which it began in any given year. This also increased operating expenses for the operators that carried Disney Channel.

Accordingly, when Disney Channel was a premium service, its resources were focused on telemarketing, subscriber acquisition programs (such as free previews of the service supported by direct-mail advertising, bill inserts, and consumer premiums), and retention programs like the production and distribution of Disney Channel Magazine, all in an effort to counteract churn and to grow subscribers on a transaction by transaction basis.

Disney Channel's Experiments with Programming Tiers Also Were Unsuccessful. During the late 1980s, Disney Channel attempted to combat the effects of churn by experimenting with a variety of pricing and packaging models. During this time, Disney Channel was offered in a hybrid fashion in that on some cable systems it was available on an a la carte service, on others it was part of a premium package or part of tiers, and on others it was on expanded basic. Aggressive marketing of Disney Channel as part of a



package of premium services with HBO and Showtime showed some gains; however, these gains proved to be short-lived. When Disney Channel was offered either as part of a new product tier or a tier with three to four cable networks for between \$3.95 and \$5.95 per month, there was initial success. However, after an initial increase, penetration began to drop. Even at their peak, these tiers reached only 40% penetration and then only for a brief period. These strategies continued to require heavy investment in marketing and retention programs, which, in turn, unavoidably diverted funds from programming. From 1990 through 1997, Disney Channel invested on average approximately 10% of its total revenue from sales each year on telemarketing, subscriber acquisition programs, and retention programs. By the late 1990s, it became clear that the hybrid approach was inefficient and too costly to sustain long-term.

Disney Channel's Migration to Expanded Basic Succeeded and Resulted in Higher Quality and More Diverse Programming. By the end of 2000, Disney Channel was offered only as an expanded basic service. After Disney Channel's transition from a la carte to expanded basic, telemarketing, subscriber acquisition, and retention costs were *de minimis*, and Disney Channel could thus spend more of its total revenues on diverse, quality programming for kids and families. Disney Channel's average yearly programming expenses increased by over 57% from the period 1990 - 1997 to the period 2000 - 2006. Furthermore, Disney Channel's average yearly *original* programming expenses increased by over 140% from the period 1990 - 1997 to the period 2000 - 2003. This investment in programming has resonated with Disney Channel's audience in the form of higher ratings as Disney Channel has tripled its ratings for kids 6-11 since it was an a la carte service in 1995.

Moreover, Disney Channel's investment in high-quality kid and family programming in the Disney tradition also has been recognized in the industry and by viewers as reflected by Disney Channel's numerous nominations and awards for Humanitas Prizes for original programming, NATAS Daytime Emmy Awards for pre-school programming, Parents' Choice Foundation awards for children's programming, and Nickelodeon's Kid's Choice Awards. As an expanded basic service, Disney Channel has been able to reach a broader audience and provide far-reaching support of various public affairs initiatives through programs like Cable in the Classroom and Learning Together. Learning Together is an ongoing multi-city and multi-channel public affairs initiative. As part of Learning Together, Disney Channel's "Imagineer That!" helps kids unlock their creativity through in-school workshops that help build their confidence to use their imaginations and express their ideas. For Disney Channel's preschoolers, Playhouse Disney hosts "Stanley's Great Big Story Time Adventure," a stage show that tours throughout the nation, providing an opportunity for children and families to celebrate the fun of learning through interactive storytelling.



Disney Channel has also been able to address the interests of a growing and diverse audience. Disney Channel more than doubled its ratings for African American kids 2-11 from 2002 to 2005. Indeed, in May 2004, approximately 15% of Disney Channel's programming hours included programs with an African American lead actor (19% if you include programs with a diverse cast). Disney Channel's diverse programming has also been recognized by minority groups for its positive contribution in support of diversity, with Disney Channel and Disney Channel programming such as "That's So Raven", "The Cheetah Girls", and "The Proud Family" receiving nominations and awards like the NAACP Image Award, the Imagen Foundation Award, and the NAMIC Vision Award.

Based on the experience and history of Disney Channel, it is clear that Disney Channel's move from a la carte to expanded basic resulted in a far more robust network that is more reflective of the growing and diverse audience it serves. If Disney Channel were mandated to return to its a la carte beginnings, it could be forced to retreat from its current position as a leader in high quality and trusted, kid and family television programming that is responsive to and representative of its audience. Disney Channel urges you to oppose any proposals for government regulation of a la carte programming options.

Sincerely,

A handwritten signature in black ink that reads 'Rich Ross/SLF'.

Rich Ross  
President  
Disney Channel Worldwide